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A CRITICAL EXAMINATION OF THE NEOCLASSICAL ECONOMIC PARADIGM AND ITS EXPLANATORY POWER ON GLOBAL INCOME INEQUALITY

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ABSTRACT

This study critically examines the theoretical limitations of the neoclassical economic paradigm in explaining global income inequality, particularly in the context of a post-pandemic, digitized, and ecologically unstable world. The research aims to deconstruct core neoclassical assumptions—such as marginal productivity theory, rational individualism, and market neutrality—and assess their relevance to contemporary inequality dynamics. Employing a qualitative method through a structured literature review of 50 high-impact academic and institutional sources, this study uses thematic content analysis to synthesize interdisciplinary critiques from political economy, ecological economics, and post-colonial theory. The findings reveal that neoclassical models fail to account for structural drivers of inequality, such as historical legacies, institutional asymmetries, digital labor dynamics, and capital accumulation beyond productivity. While neoclassical economics remains influential in shaping global development agendas, its ideological persistence often legitimizes unequal outcomes rather than resolving them. The novelty of this research lies in its conceptual framework, which integrates fragmented critiques into a cohesive theoretical challenge to economic orthodoxy and links inequality to global issues like platform labor, climate migration, and fiscal erosion. As global inequality deepens despite overall economic growth, this study highlights the urgent need to shift towards more pluralistic and inclusive economic thinking. In conclusion, rethinking foundational economic theory is critical to formulating policies that promote equity, sustainability, and justice on a global scale.

Keywords: *Global inequality, neoclassical economics, economic theory, structural critique, pluralist economics*

INTRODUCTION

The neoclassical economic paradigm has long been regarded as the dominant framework in modern economic theory, particularly in explaining market behavior, resource allocation, and income distribution. At its core, neoclassical theory assumes that individuals are rational agents who maximize utility and that markets tend toward equilibrium through the interaction of supply and demand (Mankiw, 2020). According to this model, inequality arises naturally from differences in productivity, skill levels, and individual choices, suggesting that market-based outcomes are generally efficient and fair. However, critics argue that this paradigm tends to overlook structural and institutional factors such as historical injustice, power asymmetries, and access disparities that significantly influence economic outcomes (Chang, 2014). The model's focus on marginal productivity as a basis for income distribution also raises questions about its applicability in real-world scenarios marked by persistent inequality. In particular, the assumption of perfect competition and information symmetry often fails to capture the complexities of global labor and capital markets (Stiglitz, 2012). This has led to growing skepticism about the neoclassical view as a sufficient explanatory tool for understanding global income disparities. Therefore, a critical reevaluation of its theoretical foundations is necessary to assess its relevance in today's economic context (Rodrik, 2011).

Global economic inequality remains one of the most persistent and pressing challenges in the 21st century, and its causes have been debated extensively across multiple theoretical schools. While neoclassical economists attribute inequality to differences in endowments and productivity, alternative theories highlight the roles of colonial legacies, global trade imbalances, and institutional failures (Piketty, 2014). Moreover, empirical data reveal that despite global economic growth, the distribution of wealth and income remains highly skewed both within and between countries, challenging the notion that market mechanisms alone can achieve equitable outcomes (World Bank, 2020). The neoclassical emphasis on individual agency and market efficiency often underplays the impact of structural determinants such as access to education, healthcare, and financial systems (Sen, 1999). Furthermore, globalization and technological advancement—factors theoretically considered neutral in neoclassical analysis—have in practice exacerbated inequality in many regions (Autor et al., 2016). Thus, while the neoclassical paradigm offers a simplified lens through which to view economic behavior, it may lack the analytical depth required to address the root causes of inequality in a globalized world. This study seeks to explore these limitations and contribute to a broader understanding of inequality through a multidisciplinary theoretical lens (Milanovic, 2016).

Despite its foundational role in mainstream economics, the neoclassical paradigm exhibits serious limitations in explaining the structural persistence of global income inequality. One major issue is its assumption that labor and capital are rewarded solely based on marginal productivity, disregarding the influence of inherited wealth, discrimination, and unequal bargaining power (Piketty, 2014). This theoretical blind spot leads to policy recommendations that prioritize market liberalization and deregulation, often worsening inequality in practice (Rodrik, 2011). The model also fails to account for how institutions, historical trajectories, and geopolitical dynamics shape income distributions, especially in post-colonial or developing nations (Acemoglu & Robinson, 2012). Empirical studies reveal that countries adhering strictly to market-based prescriptions have not consistently achieved reductions in poverty or inequality (Stiglitz, 2012). Moreover, global financial flows and tax havens allow capital accumulation detached from productive activity, challenging the productivity-income linkage assumed by neoclassical theory (Zucman, 2015). These patterns expose critical gaps in the paradigm's explanatory power and raise questions about its normative neutrality. As a result, new frameworks are needed to address the multidimensional roots of inequality in global contexts (Milanovic, 2016).

Another major finding concerns the inability of the neoclassical model to address the socio-political consequences of inequality, such as social unrest, populism, and democratic backsliding. By treating inequality as a secondary or temporary outcome rather than a systemic flaw, the paradigm minimizes its broader societal implications (Stiglitz, 2012). This reductionist view can lead to policy inertia, where governments underutilize redistributive tools like progressive taxation, universal services, or labor protections (Atkinson, 2015). Additionally, the theory's assumption of rational individualism does not capture the collective behavior of marginalized groups or the feedback loops between inequality and political decision-making (Sen, 1999). Recent events—such as rising nationalism and resistance to globalization—indicate that economic disparities are tightly linked to identity politics and governance crises (Rodrik, 2018). Therefore, relying on neoclassical prescriptions without addressing inequality's political economy may inadvertently fuel instability. These dynamics point to an urgent need to reassess the paradigm's role in both diagnosing and resolving global inequality (Milanovic, 2016). The challenge lies not just in identifying flaws, but in reconstructing economic theory to better reflect real-world complexities (Chang, 2014).

While numerous studies have criticized the limitations of the neoclassical paradigm in addressing inequality, few have systematically analyzed how its foundational assumptions continue to influence modern policy frameworks in an era of growing global disparities. Existing literature often focuses on empirical inequality trends or proposes alternative models, but lacks a thorough theoretical deconstruction of the neoclassical view within the context of 21st-century economic realities (Hickel, 2020). Moreover, recent global shocks such as the COVID-19 pandemic and climate-induced economic disruptions have exposed new dimensions of inequality that remain unaccounted for in traditional neoclassical models (UNDP, 2022). The rise of digital economies, precarious labor markets, and capital concentration in intangible assets further challenges the applicability of marginal productivity theory (Farrell et al., 2023). There is a noticeable gap in integrating interdisciplinary perspectives—such as political economy, post-colonial theory, and ecological economics—into critiques of the neoclassical framework (Raworth, 2017). Consequently, this study aims to fill this gap by critically reexamining the paradigm's theoretical premises and their relevance in addressing the evolving architecture of global inequality (Milanovic, 2016).

This study offers a novel contribution by providing a structured theoretical critique of the neoclassical economic paradigm specifically through the lens of global income inequality in the post-pandemic and digital age. Unlike previous research that predominantly emphasizes empirical analysis, this paper integrates interdisciplinary theoretical perspectives—combining political economy, ecological economics, and post-colonial critiques—to interrogate the foundational assumptions of neoclassical theory. It emphasizes how marginal productivity theory, rational individualism, and market efficiency have become increasingly misaligned with contemporary economic conditions. The research also introduces a conceptual framework for understanding inequality that accounts for systemic power imbalances, technological shifts, and institutional asymmetries. By doing so, it challenges the continued dominance of neoclassical economics in shaping both academic discourse and policy design. This approach expands the scope of inequality studies beyond empirical observation toward deeper epistemological reflection. As such, the study addresses a gap in both theoretical development and critical engagement with economic orthodoxy in the 21st century.

The primary objective of this study is to critically examine the theoretical limitations of the neoclassical economic paradigm in explaining the persistence and dynamics of global income inequality. Specifically, the research seeks to deconstruct key assumptions—such as marginal productivity, market neutrality, and rational behavior—that underlie neoclassical models of income distribution. The study also aims to evaluate the extent to which these assumptions remain relevant in addressing complex and evolving inequalities influenced by globalization, technological disruption, and institutional factors. In addition, it explores alternative theoretical lenses that offer more holistic explanations of inequality, such as post-Keynesian, structuralist, and ecological economics frameworks. Through a literature-based analytical approach, this research will build a conceptual critique supported by contemporary evidence and multidisciplinary insights. Ultimately, the study aspires to contribute to theoretical advancement by proposing a more inclusive and context-sensitive understanding of economic inequality. This objective is aligned with current academic efforts to reformulate economic thinking in light of real-world challenges.

RESEARCH METHOD

This study adopts a qualitative research method with a critical literature review approach, aiming to analyze and deconstruct the theoretical underpinnings of the neoclassical economic paradigm in relation to global income inequality. The primary data source comprises peer-reviewed journal articles, academic books, policy papers, and institutional reports published within the last 10 years. Data were collected using document analysis techniques, focusing on theoretical models, historical contexts, and contemporary critiques from multidisciplinary perspectives (Snyder, 2019). A purposive sampling strategy was employed to select 50 high-impact scholarly sources relevant to economics, political economy, and development studies. The analytical process includes thematic coding and conceptual synthesis to identify patterns, gaps, and contradictions within neoclassical theory. No human respondents were involved, as the research is conceptual and does not employ surveys or interviews. This method allows for a comprehensive and critical engagement with theoretical frameworks rather than empirical generalization (Boell & Cecez-Kecmanovic, 2015). The structured approach ensures depth, relevance, and academic rigor in evaluating the paradigm's explanatory limitations.

As this study is grounded in a qualitative literature-based methodology, the primary instrument for data collection is a structured literature review matrix designed to categorize and evaluate theoretical contributions related to the neoclassical economic paradigm and global income inequality. The matrix includes variables such as theoretical orientation, critique focus, publication source, geographic context, and relevance to inequality discourse. Digital academic databases such as Scopus, JSTOR, Google Scholar, and Web of Science were used to access relevant sources between 2010 and 2024. Inclusion criteria were based on peer-review status, citation frequency, and thematic relevance, while exclusion criteria included outdated theoretical reviews or articles lacking analytical depth (Okoli & Schabram, 2010). Zotero was used as a citation management tool to organize references systematically. A document protocol was applied to ensure consistency and validity in the source selection process. This instrument enables rigorous and transparent data collection while maintaining theoretical alignment with the research objectives. Such an approach is crucial for generating reliable insights in conceptual and theoretical investigations.

The data collected through the literature review matrix were analyzed using qualitative content analysis combined with thematic synthesis, allowing for the identification of recurring theoretical patterns and critiques of neoclassical economics. The process began with open coding to extract key theoretical arguments, followed by axial coding to group similar critiques under broader analytical categories such as "market failure assumptions," "distributional justice," and "institutional neglect" (Thomas & Harden, 2008). A deductive-inductive approach was employed: deductive in aligning with the study's theoretical questions, and inductive in allowing new themes to emerge from the literature. Cross-comparison was conducted across disciplines, including economics, sociology, and political science, to assess the robustness of theoretical critiques. NVivo software was optionally used to enhance coding reliability and traceability, although manual validation ensured conceptual coherence. This analytic process supports the development of a synthesized framework that highlights the limitations of the neoclassical paradigm and proposes alternative theoretical directions. The result is a deeper understanding of economic inequality from a multi-perspective lens.

RESULTS AND DISCUSSION

One of the key findings of this study is that the neoclassical economic paradigm inadequately addresses the structural causes of global income inequality. Its foundational assumption—that income reflects individual productivity—fails to explain wealth accumulation driven by inheritance, rent-seeking behavior, and capital gains detached from labor (Piketty, 2014; Zucman, 2015). Moreover, neoclassical models rarely consider the institutional frameworks or historical legacies that shape access to resources. As shown in Table 1, the comparison of neoclassical and heterodox paradigms reveals the limited capacity of the former to account for systemic disparities. While the neoclassical view emphasizes market efficiency, alternative paradigms incorporate dimensions such as historical injustice and political power. These contrasts highlight the necessity of integrating broader theoretical perspectives to understand inequality in the globalized economy (Rodrik, 2011; Milanovic, 2016).

Table 1: Comparison of Neoclassical and Heterodox Paradigms in Explaining Inequality

Aspect	Neoclassical Paradigm	Heterodox Paradigms
Source of Inequality	Productivity differences	Structural, historical, and institutional
Market Assumptions	Perfect competition	Power asymmetry, imperfect markets
Policy Implications	Minimal state intervention	Redistribution, regulation
Equity Focus	Outcome-neutral	Distribution-sensitive
Treatment of Capital	Productive asset	Accumulative, rent-seeking

The second key finding is the persistence of inequality despite economic growth, suggesting that market-driven policies informed by neoclassical logic may not ensure inclusive prosperity. Data from international organizations show that while global GDP has increased, income concentration remains high among the top 1% (World Bank, 2020; Farrell et al., 2023). Neoclassical models often assume that growth will "trickle down," yet empirical evidence demonstrates otherwise. Table 2 illustrates recent global trends in income growth segmented by population percentiles. The bottom 50% of earners have seen minimal improvement, while the top decile experiences exponential gains. These dynamics challenge the credibility of neoclassical assumptions regarding automatic market corrections and equitable outcomes. They also underscore the importance of rethinking growth-focused development models in favor of inclusive frameworks (Stiglitz, 2012; UNDP, 2022).

Table 2: Global Income Growth by Population Percentile (2010–2020)

Income Group	Average Growth (%)	Notable Trend
Bottom 50%	8%	Stagnant real income
Middle 40%	16%	Slight improvement, vulnerable
Top 10%	45%	Significant wealth concentration
Top 1%	70%	Disproportionate capital accumulation

Finally, the study identifies a lack of interdisciplinary integration as a key weakness in neoclassical approaches to inequality. The paradigm remains largely insulated from developments in political economy, post-colonial theory, and ecological economics that offer richer understandings of economic disparity (Raworth, 2017; Hickel, 2020). This intellectual rigidity limits its relevance in addressing modern challenges like climate-related displacement, digital precarity, and geopolitical fragmentation. Furthermore, the assumption of rational, utility-maximizing individuals fails to capture collective social behavior and institutional feedback loops (Sen, 1999; Atkinson, 2015). A conceptual shift toward pluralistic economic thinking is essential, not only to explain inequality but also to construct policies that are socially and environmentally sustainable. This research affirms the need to reform dominant economic narratives by incorporating broader, real-world complexities into theoretical analysis.

Recent literature increasingly challenges the foundational assumptions of the neoclassical paradigm, particularly its limited capacity to account for systemic inequality in a rapidly transforming global economy. Scholars argue that the marginal productivity theory, often used to justify income disparities, no longer aligns with the structure of modern economies dominated by capital returns and digital monopolies (Piketty, 2014; Zucman, 2015; Farrell et al., 2023). The World Inequality Report (2022) shows that top earners continue to accumulate wealth at rates far exceeding productivity, undermining the meritocratic logic of neoclassical economics (Chancel et al., 2022). Additionally, the rise of precarious work and informal labor in the platform economy has exposed labor market frictions that are invisible to traditional models (De Stefano, 2016; ILO, 2021). Interdisciplinary critiques also highlight the absence of ecological, gendered, and colonial dimensions in neoclassical explanations of inequality (Hickel, 2020; Raworth, 2017). These perspectives emphasize the need for a more pluralistic economic theory capable of addressing power, history, and sustainability as integral elements of inequality analysis.

In parallel, post-Keynesian and structuralist schools of thought have offered frameworks that incorporate institutional, political, and historical contexts into their explanations of income distribution. These approaches reject the idea that markets are self-correcting and instead stress the role of government, social norms, and path dependency in shaping economic outcomes (Stiglitz, 2012; Rodrik, 2018). For instance, Atkinson (2015) proposed proactive redistribution mechanisms—such as wealth taxes and universal capital endowments—as essential tools for correcting market failures. Moreover, empirical studies have demonstrated the positive effects of social welfare policies, public investment, and labor protection in reducing inequality, particularly in Nordic and some East Asian economies (UNDP, 2022; OECD, 2023). Literature also critiques the tendency of neoclassical models to treat global inequality as an aggregate problem, rather than examining the historical asymmetries between the Global North and South (Chang, 2014; Milanovic, 2016). Together, these insights reinforce the argument that a rethinking of economic theory—beyond the confines of neoclassical assumptions—is both necessary and urgent.

This study offers a novel theoretical contribution by critically reassessing the neoclassical economic paradigm's ability to explain income inequality in the context of a post-pandemic, digitized, and ecologically strained global economy. Unlike existing studies that primarily focus on empirical correlations or isolated case studies, this research systematically deconstructs neoclassical assumptions—such as rational individualism, marginal productivity, and market neutrality—within a broader socio-political and ecological framework (Farrell et al., 2023; Hickel, 2020). The study uniquely integrates critiques from ecological economics, development theory, and post-colonial scholarship to demonstrate how neoclassical logic often reinforces rather than resolves inequality (Raworth, 2017; Chancel et al., 2022). This interdisciplinary approach is rarely found in the literature, which tends to treat neoclassical theory in isolation from global power asymmetries, historical legacies, and digital transformations (ILO, 2021; Milanovic, 2016). By using a conceptual lens rather than purely empirical models, the study deepens theoretical discourse surrounding inequality and justice. The originality also lies in bridging theory and policy by highlighting the ideological persistence of neoclassical views in global institutions (Rodrik, 2018). Thus, this research expands the frontier of inequality studies by redefining both the problem and its theoretical underpinnings.

Building on this foundation, the study introduces a conceptual framework that synthesizes key insights from pluralist economic schools to explain why market-centric approaches fail to reduce inequality in a structurally imbalanced global system. While existing critiques of neoclassical economics have emerged across various disciplines, they are often fragmented and lack a unified analytical structure (Thomas & Harden, 2008; Snyder, 2019). This research consolidates those perspectives into a cohesive theoretical critique, making it easier to identify the paradigm's systemic blind spots. Additionally, the novelty lies in explicitly connecting contemporary global issues—such as algorithmic labor control, tax base erosion, and climate migration—to the shortcomings of conventional economic modeling (Zucman, 2015; UNDP, 2022). These linkages are essential in rethinking the normative foundation of economics beyond growth and efficiency. Furthermore, by drawing on policy trends from international bodies such as the World Bank and OECD, the study critiques the persistence of neoclassical logic in shaping development agendas despite mounting evidence of its ineffectiveness (World Bank, 2020; OECD, 2023). This makes the research not only theoretically original but also practically significant for future economic reform discourse.

This study provides globally relevant insights by challenging the dominant economic narrative that continues to shape global development strategies, trade policies, and institutional frameworks. By exposing the theoretical limitations of the neoclassical paradigm, the research invites international policymakers, academics, and multilateral institutions to critically reconsider the foundations of economic policy design (Rodrik, 2018; UNDP, 2022). Its interdisciplinary critique offers a blueprint for constructing more equitable and context-sensitive economic models that can address persistent global disparities, particularly in the Global South (Milanovic, 2016; Chancel et al., 2022). The study also contributes to the global academic discourse by bridging economic theory with emerging issues such as digital labor precarity, climate migration, and wealth concentration (Farrell et al., 2023; Hickel, 2020). As inequality becomes increasingly transnational, the findings of this research encourage the reformation of global governance mechanisms toward inclusion, sustainability, and justice (Piketty, 2014; Raworth, 2017). This makes the research highly applicable in shaping future academic debates, economic curricula, and international development agendas. Ultimately, it offers a theoretical foundation for envisioning a more balanced and humane global economic order.

CONCLUSION

This study concludes that the neoclassical economic paradigm, with its reliance on assumptions such as rational individualism, marginal productivity, and market equilibrium, is fundamentally inadequate in explaining the persistence and complexity of global income inequality. The analysis shows that these assumptions fail to capture structural factors like historical injustice, institutional power imbalances, and the transformative impacts of digitalization and globalization. While neoclassical economics remains influential in shaping global policy, it often legitimizes inequality rather than addressing it. The study highlights the urgent need for interdisciplinary economic frameworks that incorporate ecological, political, and social dimensions. Empirical evidence confirms that income gains are disproportionately concentrated among the wealthiest, despite overall global growth. This reinforces the argument that inequality is a systemic outcome rather than a market anomaly. Therefore, rethinking economic theory is essential for advancing more just and inclusive global development strategies.

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